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**Curbing the Size of the Public Sector: The Case of the Voluntary
Retirement Program in Morocco**

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Outline



1. Public Sector Management and the PARP
2. Political and Economic Context
3. Past Downsizing in the Public Sector: Contrasting Results
4. Wage Policies in the Public Administration
5. Public Administration Reform Program (PARP) and the Voluntary Retirement Program (VRP)
6. Results and Evaluation of “Intilaka”
7. Lessons from “Intilaka” and Conclusion



1. Public Sector Management and Public Sector Reform Program (PARP)



Excessive centralization

Budget management

- Centralized procedures for budget preparation and execution
- Heavy ex-ante compliance controls
- Inefficiencies in the use of public resources

Civil service management

- Dominated by a tenure system
- Little incentives for good performance
- Opaque and fragmented compensation system, coupled with constraining regulations
- Pay rise and promotions are linked to seniority and collective bargaining
- Development of a rapidly rising and unsustainable wage bill



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1. Public Sector Management and Public Sector Reform Program (PARP)



Morocco launched in 2003 a broad Public Administration Reform Program (PARP) focusing on three components

1. Budgetary reforms designed to improve the efficiency of public expenditure
2. Civil service management reform
3. Measures to keep the wage bill at sustainable level over time

Voluntary Retirement Program (VRP) is one of the most important measures of PARP and contributes to achieving its outcomes



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2. Political and Economic Context



■ Political context

- ♦ Economic liberalism
- ♦ Political pluralism
- ♦ Democratization: slow but steady
- ♦ Commitment to implement needed reforms
 - But slow decision making process



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2. Political and Economic Context



■ Economic context

- ♦ Low inflation (1 percent in 2005) and solid external position (10 months of imports in 2005)
- ♦ Ambitious program of structural reforms
- ♦ Sluggish and volatile growth (3.5 percent since 1990)
- ♦ Significant urban unemployment (18.7 percent in 2005)
- ♦ Worrisome fiscal stance (5.5 percent of GDP over 2000-05)
- ♦ Rising wage bill which reached 13.6 percent of GDP in 2005



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3. Past Downsizing in the Public Sector: Contrasting Results



Successful downsizing and restructuring in SOEEs and Failed personnel containment policies in CG

Measures adopted:

- ♦ State-Owned Establishments and Enterprises (SOEEs)
 - ♦ Recruitments containment and early retirement schemes
 - ♦ Goal: preparation for liberalization and privatizations
- ♦ Central Government
 - ♦ Recruitments containment- Goal: contain the wage bill
 - ♦ Interdiction to recruit low ranked personnel: *outsourcing*
 - ♦ Cancellation of all vacant positions resulting from normal attrition
 - ♦ Adoption of a net recruitment policy
 - ♦ New recruitments in sectors with demonstrated urgent needs: social sectors such as education and health, and to a lesser extent security

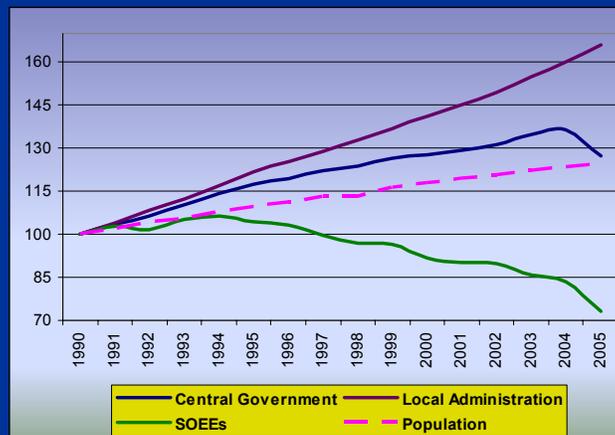


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3. Past Downsizing in the Public Sector: Contrasting Results



Evolution of Public Sector Workforce Indices (1990=100)

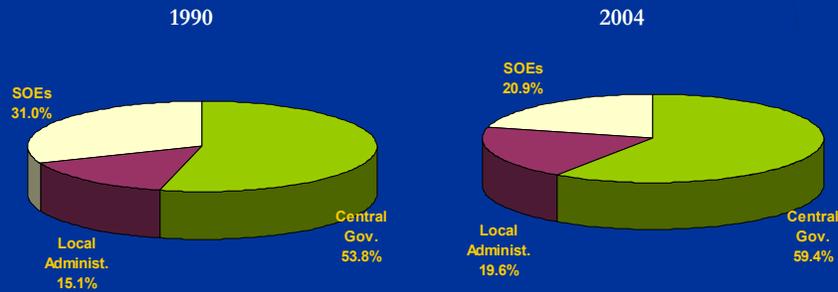


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3. Past Downsizing in the Public Sector: Contrasting Results



Relative Weight of Central Government inside Public Sector



Source: Ministry of Finance and Staff calculation

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4. Wage Policies in Public Administration



- Pay rises and promotions are linked to seniority under constraining regulations (quotas,...)
 - ♦ Bottlenecks, social dialogues, collective bargaining
 - ♦ Exceptional wage rises and promotions
 - Wage increases go beyond maintaining the purchasing power
 - Improvement of real wages by 2.3 percent annually since 1990

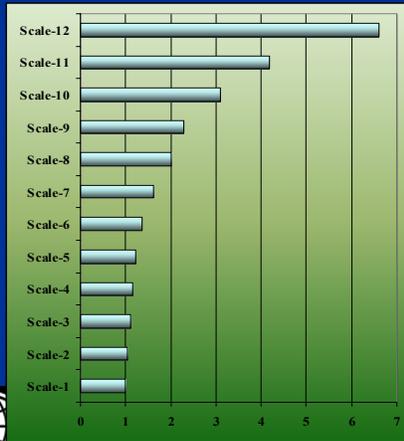
Which resulted in rising CG wage bill to GDP ratio mainly due to high wage rates of senior staff



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4. Wage Policies in Public Administration

Wage Gaps are Large for Higher Scales
Index Numbers (Scale-1=1)



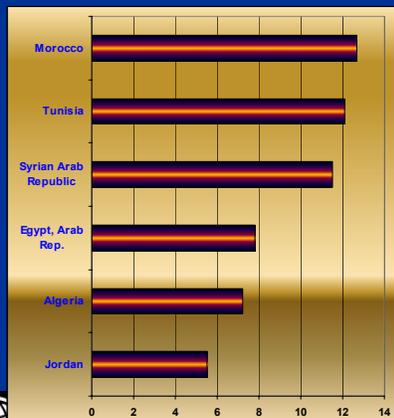
Ratios of CG Wages wrt MW,
Private Sector and GDP per capita

	1990	2001	2005
CG / Minimum Wage	2.5	2.5	2.9
CG / Private wages	1.4	1.7	1.8
CG / GDP per capita	4.3	5.0	5.6

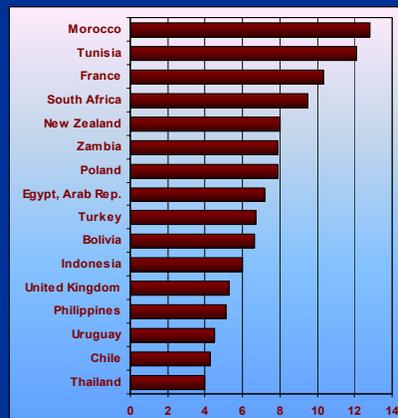
4. Wage Policies in Public Administration International Comparison of the wage bill

Weight of Central Government's Wage Bill to GDP 2004, in percent

MENA Region

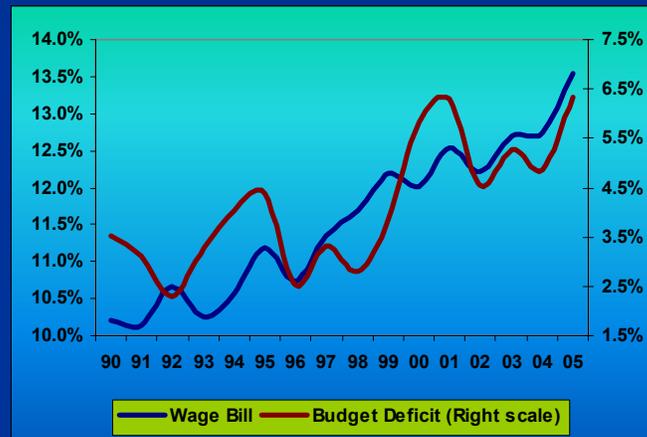


Selected Countries



4. Wage Policies in Public Administration

Rising Wage Bill Resulted in Rising Budget Deficits In percent of GDP



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5. Public Administration Reform Program (PARP)

Past experiences

- Initiatives taken to address governance issues and implement public sector reforms
 - Good Management Compact (1998)
 - Public Administration Reform component of the ESRP (2000)
 - White Book for the Administration Reform (2001)
 - Economic and Social Development Plan 2000-2004
- Past initiatives failed to set in motion any major reforms leading to real change in the civil service or how it was managed
 - Slow decision making process
 - Difficulty to gather sufficient consensus
 - Rigidities embodied in the public structures
 - Apprehension of vested interest groups



Hence, the importance of consultation with, and participation of stakeholders to building the required consensus for the reforms

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5. Public Administration Reform Program (PARP)



Consensus was attained

- Symposium on Administrative Reform held in May 2002 with the participation of stakeholders and with the strong backing of the Prime Minister

The symposium allowed to share common

- ♦ Diagnostic
- ♦ Objectives
- ♦ Action plan
- ♦ Recommendations (161)
 - Redefinition of the administration's mission, administrative decentralization, Ethics, human resource development and remuneration reform, improvement of relations with public service users, simplification of procedures, increased use of information technologies...



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5. Public Administration Reform Program (PARP)



In 2002, the Government identified the PARP as a priority

- Build a modern Administration
- Improve the human resource management
 - ♦ Better alignment: staff profiles and the needs of the Administration
 - ♦ Simplified, unified and coherent compensation framework: keep the wage bill under control in the medium term
 - ♦ Keep the wage bill under control in the short term
 - Yearly quantitative measures on recruitment and promotion, and
 - Voluntary Retirement Program (VRP)



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5. Public Administration Reform Program The First Voluntary Retirement Program



Objectives

- Downsize the Central Government by some 35,000 civil servants over a three to four year period
- 5,000 would retire in 2004
- 15,000 by the following year

However

- Only 696 civil servants were retired—well below the anticipated level of 20,000 employees expected to exit the civil service by 2005



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5. Public Administration Reform Program The First Voluntary Retirement Program



The first VRP failed to reach its objectives

- Lack of cooperation among the main actors
 - ♦ Issue of sequencing of the various components of civil service reform

Short term budgetary concerns prevailed to address the critical fiscal challenges

- Shortfalls in the design and implementation
 - ♦ Limited targeted population: lower ranks 1 to 9 out of 12
 - ♦ Unattractive incentive package
 - Pension benefits (2 percent of salary per year of service)
 - Insufficient severance amount: one month salary per year of service
 - Ceiling of 30 months for scales 6 to 9
 - Taxation of severance payments: marginal tax is high and hits at relatively low salary range
 - ♦ Ineffective information campaign
 - Poor communication



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5. Public Administration Reform Program The First Voluntary Retirement Program



Lessons drawn from the failure of the first VRP

- Ensure political and implementation leadership
- Ensure active participation of the main actors
- Put in place efficient and streamlined coordination mechanisms
- Sound communication is important for success
- Adequate financial incentive is critical



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5. Public Administration Reform Program The Second VRP “Intilaka”



A new VRP was designed taking into account the lessons learnt from the failure of the first VRP

- The second VRP was named “Intilaka”- “The Start” in Arabic
- Intilaka acknowledges the experience of the potential candidates to early retirement and their capacity to start new activities in the private sectors
- “Intilaka” was an opportunity to seize by those privileged who would be authorized to retire
- Messages stressed the values of entrepreneurship and the rewards successful retirees would get in launching investment projects
- According to the Minister of Public Sector Modernization:

“The philosophy of Intilaka is to streamline the Administration and re-profile the civil service, but also to create new linkages with the private sector by giving the civil servants the opportunity to launch their own businesses, profitable to them and useful to the community”.



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5. Public Administration Reform Program The Second VRP “Intilaka”



Measures taken to ensure success for Intilaka

- **Political leadership**
 - ♦ PM explicitly heads the operation, appoints new minister for MPSM, and issues an implementation order (PMO)
- **Implementation leadership**
 - ♦ Clear mandate for the new minister: succeed the VRP with close cooperation of various actors
- **Actors' roles, participation and coordination**
 - ♦ PMO defined the role of actors and set up timeframe for their actions
 - ♦ All actors were organized in Committees and Cells: monitoring, supervising, follow-up, assessment...
- **Communication**
 - ♦ Sustained communication : broad communications campaign, press conferences, toll free telephone line, dedicated web sites...
 - Particular emphasis on values of entrepreneurship in line with Intilaka spirit
- **Targeted Personnel and Financial package**
 - ♦ All civil service were eligible
 - ♦ Improved pension benefits and enhanced severance pay



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5. Public Administration Reform Program The Second VRP “Intilaka”



Salient features of Intilaka

- Voluntary operation
- Universal
 - ♦ All civil servants are eligible
- Selectivity
 - ♦ Authorization from ministerial departments
- Financial incentive
 - ♦ Pension benefits or employee's contribution to PF
 - ♦ Severance payments exempt from taxes
- Flexibility
 - ♦ Postpone the release date of civil servants expecting a promotion or important salary rise in 2005
- One shot operation
 - ♦ Carried out from January 1 to June 30 2005
- Accompanying measures for business start up
 - ♦ Conventions with Banks and Ministry of Industry



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5. Public Administration Reform Program The Second VRP “Intilaka”



Comparison of the First and Second VRP Operations

	First VRP (2004)	Second VRP (2005)
Targeted population	<ul style="list-style-type: none"> Civil servants pertaining to scales 1 to 9 Work tenure entitling to pension benefits required: 21 years for men and 15 years for women Civil servants retiring for age limit by the end of 2004 are not eligible 	<ul style="list-style-type: none"> All civil servants (scales 1 to 12) Work tenure entitling to pension benefits is not required Civil servants retiring for age limit by the end of 2005 are not eligible
Pension benefits	<ul style="list-style-type: none"> Two percent of gross salary (GS) for each year of service Immediate benefit upon early retirement 	<ul style="list-style-type: none"> Two percent of GS for each year of service until the normal retirement age; thereafter, two percent and a half of GS for each year of service If not entitled to pension, collection of employee's contribution to pension schemes
Severance amount	<ul style="list-style-type: none"> One month for each year of service A ceiling of 30 months for retirees belonging to scales 6 to 9 The total amount must not exceed 50 percent of total salaries the retiree would have earned if stayed until the age limit retirement 	<ul style="list-style-type: none"> One month and a half for each year of service A ceiling of 36 months for retirees belonging to scales 6 and above The total amount must not exceed 50 percent of total salaries the retiree would have earned if stayed until the age limit retirement
Income taxes on severance payments	<ul style="list-style-type: none"> Apply 	<ul style="list-style-type: none"> Exempt
Application period	<ul style="list-style-type: none"> January 1 to May 31, 2004 	<ul style="list-style-type: none"> January 1 to June 30, 2005



5. Public Administration Reform Program The Second VRP “Intilaka”



How the VRP was managed in different Ministerial Departments (MDs)

- Some MDs tried to introduce additional criteria as a basis to accept or turn down an application
- Most of the MDs processed applications as they received them
 - Except in the MDs where potential severe adverse selection problems raised the fear of service disruptions
- Some departments approved all requests received
- Social sectors: managers tried to be parsimonious in authorizing retirement to avoid disruptions in service delivery
 - Primary and Secondary Education and Health Departments



6. Results of “Intilaka”



Main Indicators by Sectors

Departments	Applications	Retirees	Acceptance		Distribution			Applicants to SW* in %	Retirees to SW* in %
			Rates in %	Civ. W.force In %	Applications In %	Retirees In %			
National Education	22 317	13 047	58.5	53.7	44.1	33.8	8.2	4.8	
Interior and National Security	6 447	6 447	100.0	12.6	12.8	16.7	10.0	10.0	
Agriculture	3 464	3 428	99.0	3.1	6.9	8.9	21.8	21.5	
Health	3 336	2 267	68.0	8.3	6.6	5.9	7.9	5.3	
Higher Education	2 838	2 838	100.0	4.1	5.6	7.4	13.6	13.6	
Finance and privatization	2 192	1 896	86.5	3.7	4.3	4.9	11.6	10.0	
Justice	1 987	988	49.7	4.2	3.9	2.6	9.2	4.6	
Equipment and Transport	1 860	1 752	94.2	1.8	3.7	4.5	20.4	19.2	
Wetland and Forests	754	716	95.0	1.1	1.5	1.9	13.9	13.2	
Youth	752	752	100.0	0.9	1.5	2.0	16.2	16.2	
Water	624	624	100.0	0.7	1.2	1.6	16.6	16.6	
Other sectors	3 990	3 836	96.1	5.8	7.9	9.9	13.6	13.1	
Total	50 561	38 591	76.3	100.0	100.0	100.00	9.9	7.6	



*) Sectoral Workforce

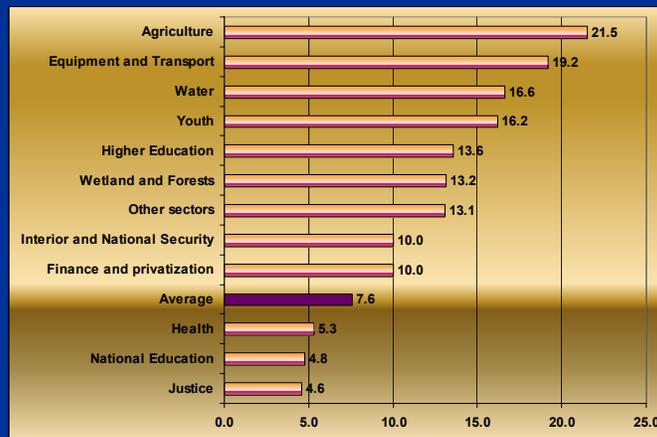
Source: MPSM, Staff Calculation

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6. Results of “Intilaka”

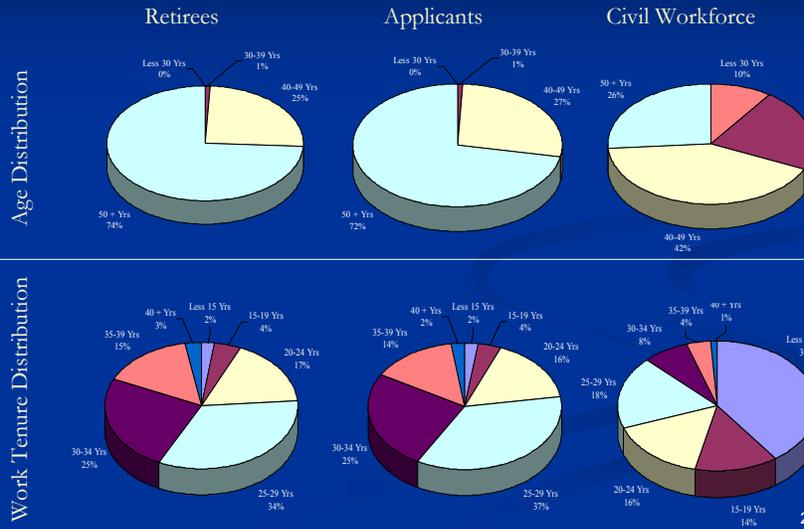


Departure Rates by Sectors in percent of respective workforce



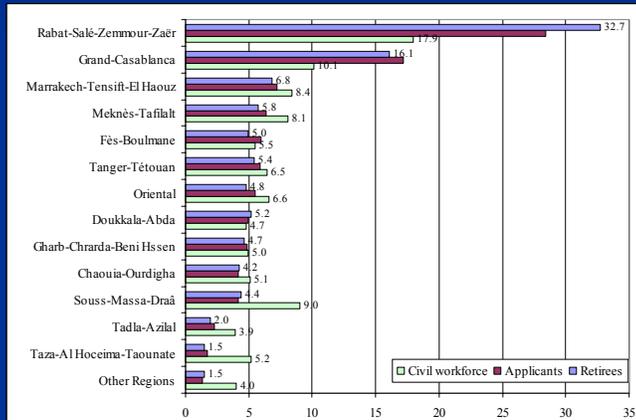
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6. Results of "Intilaka"



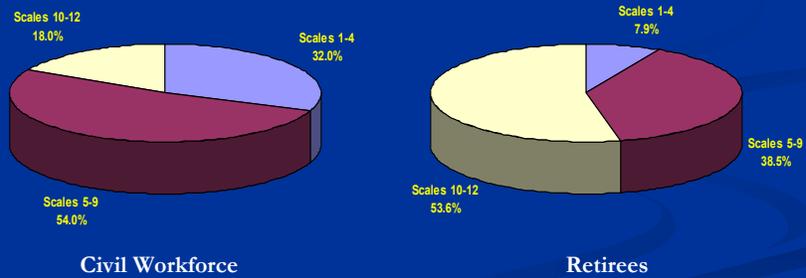
6. Results of "Intilaka"

Regional Distribution of Retirees, Applicants and Civil Workforce



6. Results of “Intilaka”

Intilaka Mostly Benefited to High Ranked Civil Servants



6. Results of “Intilaka”

Short Term Fiscal Impact of Intilaka in percent of 2005 GDP

	2005	2006
Gross savings	0.52	1.22
Wage bill	0.47	1.05
Employer's contribution to Pension Fund	0.04	0.14
Contribution to Health insurance	0.01	0.03
Gross outlays	2.37	0.65
Severance payment	2.30	
Personal tax, net	0.07	0.12
Pension Fund support		0.44
Wage for rehiring		0.10
Net savings (+)	-1.85	0.57
Memo: GDP (US\$ billion)	51,6	



6. Results of “Intilaka”



Did Intilaka achieve its expected qualitative objectives?

- **Tackle underemployment and redundancies**
 - Just partially, with an outstanding results in the Education sector (40 percent)
 - But the existing redundancies would decline as remaining staff have to fill the freed positions
- **Improve civil service efficiency**
 - Yes, as just some minor and temporary service discrepancies have been reported. Sound organization of many ministerial departments allowed overcoming the problems over the transition period
 - In the medium term, redeployment and training operations would enhance the capacity to deliver services more efficiently
- **Rejuvenate civil workforce**
 - Yes, as 74 percent of retirees are above 50 years while they represent only 42 percent in the civil workforce
- **Balance regional distribution of civil workforce**
 - Some improvement
 - Ongoing redeployment operation should improve results
- **Generate economic activities and employment**
 - Some investment projects (14 percent) and construction projects (20 percent): creation of between 5,000 and 10,000 job positions-full impact yet to be assessed



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6. Results of “Intilaka”



Was Intilaka well implemented?

- The technical implementation of the VRP was a success
 - The operation was well announced, explained, organized, conducted, and closed professionally
- But weakness in the design of selection criteria
 - Criterion “Necessity of service” proved ineffective
 - Adverse selection problem

Was the process transparent and participatory?

- Upstream communication and monitoring was crucial to disseminate information
- Consultation with trade unions was marginal
 - voluntary nature of the operation saved lengthy discussions
- Lack of communication downstream
 - lack of accurate and transparent information on the VRP outcomes fueled rumors and aroused speculation

Were the results sustainable?

- Yes, under the current commitment to go forward with budget and civil service reforms
- Wage bill will decline to less than 11 percent in 2009



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7.1 Lessons from Intilaka

- *It is possible to downsize a costly and unproductive public civil service without generating major disruptions in public service delivery*
- *A viable financial operation can result in significant savings for the budget*
- *Most expected objectives can be met if the program ensures right sequencing and design*
- *A serious consultation at the outset with stakeholders, especially trade unions, would allow avoiding some of VRP's shortcomings*
- *The sustainability of the VRP's results depends on the timely implementation of the related complementary reforms for a modernized civil service management*



7.2 Conclusion

In the context of the broader PARP

- The VRP's assessment should take into account the other components of the PARP, mainly those related to civil service reform
- Making the VRP one of the cornerstones of administration reform
 - Helped to advance a major reevaluation and improvement in management methods
 - Urged ministerial departments to re-examine modes of organization and resource management
 - Commitment to reform in a number of important aspects of human resources management: redeployment and strategic staffing, recruitment, pay, promotion and training, performance evaluation and monitoring
- Looking forward, such operations are better not as one-off exercises but as a routine and ongoing process of continuous renewal of the government workforce





Thank You

